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AN AUDIT OF THE COMMODITY CREDIT CORPORATION FOR FISCAL YEAR 1971



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LETTER FROM COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTING

A REPORT ON THE AUDIT OF THE COMMODITY CREDIT CORPORATION, DEPARTMENT OF AGRICULTURE, FOR FISCAL YEAR 1971

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LETTER OF TRANSMITTAL



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

January 14, 1972

B-114824

Dear Mr. Speaker:

This is our report on the audit of the Commodity Credit Corporation, Department of Agriculture, for the fiscal year ended June 30, 1971. 250

Our audit was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

This report is also being sent today to the President of the Senate. Copies are being sent to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

Sincerely yours,

A handwritten signature in cursive script that reads "Thomas B. Staats".

Comptroller General  
of the United States

The Honorable Carl Albert  
Speaker of the House of Representatives 100 104

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ABBREVIATIONS

CCC	Commodity Credit Corporation
GAO	General Accounting Office

D I G E S T

WHY THE AUDIT WAS MADE

The Government Corporation Control Act requires that the General Accounting Office (GAO) make an annual financial audit of the Commodity Credit Corporation (CCC).

OPINION ON FINANCIAL STATEMENTS

In view of the character and scope of CCC's operations--particularly commodity inventories and loan collateral--it was not practicable for GAO to perform all the steps of examination and verification needed to reach an independent, overall opinion concerning the accuracy and fairness of the financial statements. (See p. 19.)

Therefore GAO cannot express an opinion that CCC's financial statements present fairly its financial position at June 30, 1971, and the results of its operations for the year then ended. GAO believes, however, that

- CCC's accounting methods provided a generally satisfactory record of its financial transactions and
- CCC's financial reporting system generally was adequate to supply management with information for conducting its affairs. (See p. 21.)

OTHER MATTERS OF INTEREST

CCC reported a loss of \$4.1 billion for fiscal year 1971, which was slightly below the record-high loss of \$4.2 billion for 1970. (Price-support and related operations normally result in a loss.) Such losses are reimbursable through appropriations. At June 30, 1971, unreimbursed losses totaled \$8.3 billion--\$4.2 billion for fiscal year 1970 and \$4.1 billion for fiscal year 1971. An appropriation act approved in August 1971 provided for reimbursement of the loss incurred for fiscal year 1970. (See p. 6.)

In fiscal year 1971 CCC expended \$5.2 billion for price support and acreage diversion. Most of the expenditures pertained to feed grains, upland cotton, and wheat. Loans to producers and purchases of agricultural commodities totaled \$2.2 billion, and direct payments to producers totaled about \$3 billion. (See p. 7.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress, as required by law, to disclose the results of the annual audit of CCC's financial statements and such other information as necessary to keep the Congress informed on the operations and financial condition of CCC.

## CHAPTER 1

### INTRODUCTION

The Commodity Credit Corporation, a wholly owned Government corporation, was created as a corporation under a Delaware charter in 1933 to stabilize, support, and protect farm income and prices; to assist in the maintenance of balanced and adequate supplies of agricultural commodities; and to facilitate the orderly distribution of such commodities. CCC was reincorporated in 1948, as a Federal corporation within the Department of Agriculture, by the Commodity Credit Corporation Charter Act (15 U.S.C. 714).

The principal operations conducted by CCC are price-support programs for agricultural commodities, including the storage, handling, and disposition of commodities acquired under the programs; acreage-diversion programs; and export activities under the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1691)--commonly known as Public Law 480--which are financed by appropriations authorized under statutes providing for the activities.

## CHAPTER 2

### ORGANIZATION AND MANAGEMENT

Management of CCC is vested in a Board of Directors, subject to the general supervision and direction of the Secretary of Agriculture who is an ex officio Director and the Chairman of the Board. The Board consists of six members, in addition to the Secretary, who are appointed by the President of the United States by and with the advice and consent of the Senate.

A bipartisan advisory board of five members, also appointed by the President, surveys the general policies of CCC and advises the Secretary. Officers of CCC are designated according to their positions in the Department of Agriculture.

CCC has no operating personnel of its own. Its activities are carried out mainly by the personnel, and through the facilities, of the Department's Agricultural Stabilization and Conservation Service and the Agricultural Stabilization and Conservation State and county committees. Other agencies and offices of the Department and commercial agents also carry out certain phases of CCC's activities.

The Agricultural Stabilization and Conservation Service administers CCC's activities through its central office in Washington, D.C., and its three commodity offices located in Kansas City, Missouri; Minneapolis, Minnesota; and New Orleans, Louisiana. Responsibilities of the commodity offices include acquisition, storage, transportation, and disposition of agricultural commodities.

The Agricultural Stabilization and Conservation State and county committees carry out certain of CCC's price-support and related activities within the States and counties. There are 50 State offices, an area office in Puerto Rico, and about 2,800 county offices. The State committees supervise the activities of the county committees in their respective States.

CHAPTER 3

COMMENTS ON SELECTED HIGHLIGHTS  
OF FISCAL YEAR 1971 OPERATIONS

\$4.1 BILLION REALIZED LOSS REPORTED BY CCC

CCC's price-support and related operations normally result in a loss. For fiscal year 1971 CCC reported a realized loss of \$4.1 billion (recorded loss before adjustment of allowances for losses on loans, commodity inventories, and receivables), which was slightly below the record-high loss of \$4.2 billion for 1970. CCC's comparative statement of income and expense for fiscal years 1971 and 1970 is presented on page 26.

Most of the loss resulted from direct price-support and acreage-diversion payments to producers, totaling about \$2.9 billion on feed grains, cotton, and wheat. Also interest expense amounted to \$545 million. Export payments--to bridge the difference between U.S. prices and lower world prices--totaled \$176 million, mainly for wheat (\$127 million) and tobacco (\$29 million).

The following analysis shows the realized loss according to commodity (and products) or category of expense.

<u>Commodity or expense</u>	<u>Amount of loss or expense, including direct payments to producers (000,000 omitted)</u>
Commodities:	
Feed grains:	
Corn	\$1,241
Grain sorghum	247
Other	<u>119</u>
	1,607
Cotton	913
Wheat	716
Dairy products	179
Peanuts	66
Rice	35
Tobacco	29
Other commodities	<u>32</u>
Total	3,577
Expenses:	
Interest expense (\$545 million) net of interest income (\$125 million)	420
Operating expenses	<u>61</u>
Realized loss	<u>\$4,058</u>

In fiscal year 1971 the Congress appropriated \$3.4 billion to reimburse CCC for realized losses, compared with a reimbursement of \$5.2 billion in fiscal year 1970. A summary of changes in the amount of unreimbursed losses during fiscal year 1971 follows.

	Amount ( <u>billions</u> )
Unreimbursed losses, June 30, 1970	\$7.6
Less reimbursements in fiscal year 1971	<u>3.4</u>
	4.2
Plus realized loss in fiscal year 1971	<u>4.1</u>
Unreimbursed losses, June 30, 1971 (See sch. 3, p. 27.)	<u>\$8.3</u>

The Agriculture-Environmental and Consumer Protection Appropriation Act, 1972, approved August 10, 1971, provided for the reimbursement of \$4.2 billion (85 Stat. 190)--the amount of CCC's loss in fiscal year 1970.

In addition to incurring a realized loss of \$4.1 billion in fiscal year 1971, CCC incurred costs of \$1.3 billion for special activities authorized by various statutes and financed through special appropriations. Comments on these activities begin on page 12.

\$5.2 BILLION EXPENDED FOR PRICE  
SUPPORT AND ACREAGE DIVERSION

In fiscal year 1971 CCC expended \$4.4 billion for the price support of agricultural commodities through nonrecourse loans,<sup>1</sup> purchases, and direct payments. Also CCC made direct payments totaling \$855 million to producers for diverting acreage from production of certain crops.

Most of the expenditures pertained to feed grains, upland cotton, and wheat. Loans to producers and purchases of commodities totaled \$2.2 billion; direct payments to producers--including \$72 million on wool, subject to special reimbursement--totaled about \$3 billion.

A summary of the expenditures, by commodity, follows.

	Total expendi- tures	Price support			Direct payments	Acreage diver- sion-- direct payments
		Total	Loans	Pur- chases		
(000,000 omitted)						
Feed grains	\$1,962	\$1,194	\$ 452	\$ 6	\$ 736	\$768
Upland cotton	1,165	1,140	247	-	893 <sup>c</sup>	25 <sup>a</sup>
Wheat	766	704	280	-1 <sup>b</sup>	425 <sup>c</sup>	62
Soybeans	322	322	328	-6 <sup>d</sup>	-	-
Dairy products	383	383	-	383	-	-
Tobacco	163	163	163	-	-	-
Rice	110	110	106	4	-	-
Peanuts	145	145	120	25	-	-
Wool	72	72	-	-	72	-
Flaxseed	34	34	31	3	-	-
Other	89	89	21	68	-	-
<b>Total</b>	<b>\$5,211</b>	<b>\$4,356</b>	<b>\$1,748</b>	<b>\$482</b>	<b>\$2,126</b>	<b>\$855</b>

<sup>a</sup>This amount was paid to operators of small farms on the basis of the projected yield from a portion of their cotton acreage. Payments were made under statutory provisions pertaining to acreage diversion, but diversion was not required.

<sup>b</sup>Adjustment for loan collateral acquired in prior year.

<sup>c</sup>Net after deduction of \$385 million collected by CCC for certificates sold to wheat processors under the wheat-marketing allocation program.

<sup>1</sup>The loans are referred to as nonrecourse because CCC accepts the commodity collateral in full settlement of a loan.

\$652 MILLION REDUCTION  
IN COMMODITY INVENTORIES

At June 30, 1971, CCC's investment in commodity inventories amounted to \$1.2 billion, a decrease of \$652 million from the investment at June 30, 1970. The major decreases were \$369 million in soybeans, \$254 million in feed grains, and \$167 million in upland cotton. The soybean inventory was practically eliminated. The major increases were \$83 million in wheat and \$38 million in dairy products.

CCC's inventory activities during the year ended June 30, 1971, are summarized in the following table.

Program and commodity	Inventory June 30, 1970	Additions		Deductions		Inventory June 30, 1971
		Purchases	Loan collateral acquired (note a)	Inventory sold	Donations (note b)	
(000,000 omitted)						
Price-support program:						
Feed grains	\$ 601	\$ 6	\$104	\$ 361	\$ 3	\$ 347
Wheat	405	-1 <sup>c</sup>	212	128	-	488
Soybeans	377	-6 <sup>c</sup>	151	511	3	8
Upland cotton	208	-	128	294	1	41
Dairy products	134	383	-	190	155	172
Flaxseed	48	3	36	3	12	72
Rice, rough	41	4	14	3	9	47
Oils, mainly tung and linseed	25	22	1	8	18	22
Other	19	71	1	36	46	9
	<u>1,858</u>	<u>482</u>	<u>647</u>	<u>1,534</u>	<u>247</u>	<u>1,206</u>
Commodity export program:						
Wheat products, mainly flour	1	65	-	66	-	-
Blended food products	1	30	-	30	-	1
Vegetable oil products	-	34	-	34	-	-
Other	-	13	-	13	-	-
	<u>2</u>	<u>142</u>	<u>-</u>	<u>143</u>	<u>-</u>	<u>1</u>
Other programs	<u>-</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>1</u>
Total	<u>\$1,860</u>	<u>\$628</u>	<u>\$647</u>	<u>\$1,677</u>	<u>\$250</u>	<u>\$1,208</u>

<sup>a</sup>Includes \$46 million of collateral in excess of value of loans (\$601 million) defaulted.

<sup>b</sup>Includes inventory adjustments.

<sup>c</sup>Adjustment for loan collateral acquired in prior year.

STORAGE, HANDLING, AND TRANSPORTATION  
EXPENSES DECLINE

Costs incurred by CCC for storing, handling, and transporting its commodity inventories and for storing grain collateral for its price-support resale loans (loans extended beyond the original maturity dates) totaled \$306 million in fiscal year 1971, a decrease of \$50 million from the costs in fiscal year 1970. The major decrease was \$34 million for the storage of resale loan collateral. The cost for storing collateral totaled \$110 million in fiscal year 1971--\$91 million for collateral stored on farms and \$19 million for collateral stored in commercial warehouses.

A summary of CCC expenses for storing, handling, and transporting commodities in fiscal years 1971 and 1970 follows.

Commodity	1971					1970				
	Total expense	Storage and handling		Transpor- tation of CCC inven- tories	Total expense	Storage and handling		Transpor- tation of CCC inven- tories	Total expense	
		Total	CCC inven- tories			Reseal loan collat- eral	Total			CCC inven- tories
	(000,000 omitted)									
Feed grains	\$152	\$128	\$ 64	\$ 64	\$24	\$172	\$149	\$ 69	\$ 80	\$23
Wheat	102	79	40	39	23	99	76	27	49	23
Soybeans	15	14	7	7	1	47	39	24	15	8
Upland cotton	10	10	10	-	-	15	13	13	-	2
Dairy products	13	4	4	-	9	11	3	3	-	8
Other	14	9	9	-	5	12	9	9	-	3
<b>Total</b>	<b>\$306</b>	<b>\$244</b>	<b>\$134</b>	<b>\$110</b>	<b>\$62</b>	<b>\$356</b>	<b>\$289</b>	<b>\$145</b>	<b>\$144</b>	<b>\$67</b>

\$1.3 BILLION IN REIMBURSABLE COSTS  
INCURRED BY CCC FOR SPECIAL ACTIVITIES

Under certain laws, CCC performs special activities and receives appropriated funds either as partial reimbursement for costs incurred or as advances. Because the special activities are financed separately from CCC's price-support and related programs, the costs of special activities are not included in CCC's net loss of \$4.1 billion as shown in schedule 2.

Costs of the special activities were \$1.3 billion for fiscal year 1971--about the same as for fiscal years 1969 and 1970. This represents a leveling off of costs after a downtrend since fiscal year 1962 when such costs were \$2.3 billion.

The principal special activity pertained to exports of agricultural commodities--at a total cost of \$1.2 billion--under Public Law 480. A summary showing the costs incurred and the funds received by CCC for the special activities during fiscal year 1971 follows.

<u>Activity and authority</u>	Unreimbursed costs (appropriated funds in advance of ex- penditure (-) at <u>June 30, 1970</u>	<u>Fiscal year 1971 activity</u>		Unreimbursed costs at <u>June 30, 1971</u>
		<u>Costs incurred</u>	<u>Appropriations and other funds received</u>	
(000,000 omitted)				
Public Law 480 (7 U.S.C. 1691):				
Title I	\$ -2	\$ 851	\$ 740	\$109
Title II	<u>49</u>	<u>396</u>	<u>291</u>	<u>154</u>
	47	1,247	1,031	263
National Wool Act of 1954 (7 U.S.C. 1781)	<u>56</u>	<u>75</u>	<u>56</u>	<u>75</u>
Total	<u>\$103</u>	<u>\$1,322</u>	<u>\$1,087</u>	<u>\$338</u>

Title I of Public Law 480 provides for CCC to finance the sale of agricultural commodities for dollars on credit terms or for foreign currencies. Title II of the law provides for Government donations of agricultural commodities for distribution in foreign countries. A summary of costs incurred under Public Law 480 by type of transaction during fiscal year 1971 follows.

	<u>Title I</u>	<u>Title II</u>	<u>Total</u>
	—(000,000 omitted)—		
Commercial export sales of agricultural commodities (suppliers' invoices)	\$760	\$ -	\$ 760
Payments to suppliers for export differentials	39	-	39
Disposition of CCC inventories (included as sales in CCC's statement of income and expense)	-	303	303
Ocean transportation	52	91	143
Other	<u>-</u>	<u>2</u>	<u>2</u>
Total	<u>\$851</u>	<u>\$396</u>	<u>\$1,247</u>

About 42 percent of the costs under Public Law 480 pertained to the export of wheat. The following summary shows the costs by commodity or by other category.

<u>Item</u>	<u>Amount</u> <u>(000,000 omitted)</u>
Wheat	\$ 500
Rice	176
Cotton	127
Vegetable oil products	124
Dairy products	118
Feed grains	99
Blended food products	31
Tobacco	26
Other	<u>3</u>
	1,204
Ocean transportation for commodities donated through non-profit voluntary agencies	41
Other	<u>2</u>
Total	<u>\$1,247</u>

1971, CCC collected \$1.4 million on delinquent accounts, but none of this amount pertained to these two debts.

A summary showing the net activity in the Public Law 480 accounts during fiscal year 1971 and the balances due from the debtors at June 30, 1970 and 1971, follows.

	<u>Balance</u> <u>June 30, 1970</u>	<u>Net increase or</u> <u>decrease (-)</u>	<u>Balance</u> <u>June 30, 1971</u>
	(millions)		
<b>Foreign governments:</b>			
Indonesia	\$ 329.0	\$116.7	\$ 445.7
India	264.5	134.3	398.8
Yugoslavia	231.9	-25.9	206.0
Korea	96.7	64.3	161.0
Israel	103.3	47.6	150.9
Pakistan	90.7	44.3	135.0
Brazil	103.5	16.8	120.3
Turkey	43.8	20.9	64.7
Morocco	37.0	14.1	51.1
Tunisia	35.8	11.5	47.3
Chile	48.1	-2.4	45.7
Ceylon	35.6	7.6	43.2
Dominican Republic	31.6	7.1	38.7
Philippines	25.5	6.7	32.2
Columbia	24.4	5.8	30.2
Congo	29.9	-	29.9
China	27.9	-1.9	26.0
Ghana	14.1	8.0	22.1
Uruguay	19.0	.5	19.5
Bolivia	18.4	-.8	17.6
United Arab Republic (increase in 1971 was for interest)	16.0	.3	16.3
Guinea	10.9	4.3	15.2
Greece	16.2	-1.1	15.1
Afghanistan	8.9	2.7	11.6
Iran	11.0	-.7	10.3
Other	<u>73.8</u>	<u>5.0</u>	<u>78.8</u>
	1,747.5	485.7	2,233.2
<b>Foreign trade entities</b>	<u>23.4</u>	<u>12.5</u>	<u>35.9</u>
<b>Total</b>	<u>\$1,770.9</u>	<u>\$498.2</u>	<u>\$2,269.1</u>

TOBACCO OUTLAYS TOTAL \$350 MILLION

In 1971 several bills were introduced in the Congress to terminate the price support of tobacco. These bills were offered on the basis that tobacco products might have harmful effects on personal health. Because of this congressional interest, we are presenting below a summary of gross outlays by CCC on tobacco for fiscal year 1971. Most of the outlays were for price-support loans and for financing exports.

<u>Activity</u>	<u>Amount</u> <u>(000,000 omitted)</u>
Price-support loans	\$163
Interest on investment in price-support loans, estimated	56
CCC export credit sales	76
Public Law 480 sales:	
Sales for foreign currencies	16
Credit sales for dollars	10
Export payments	<u>29</u>
Total	<u>\$350</u>

CCC estimated that, in addition to the foregoing outlays, \$270,000 had been spent in administering the tobacco price-support program.

We estimated, on the basis of an average investment of about \$865 million in price-support loans during the year and on the basis of CCC's 6-1/2-percent average interest cost of borrowed funds, that the interest on CCC's investment amounted to \$56 million. If the price-support loans--bearing an interest rate of 3-1/2 percent--are repaid by the borrowers, about \$30 million of the interest cost of \$56 million may be recovered. CCC collects interest on tobacco loans to the extent that proceeds from sale of loan collateral exceed the loan principal.

Most of CCC's \$76 million of financing under the export credit sales program pertained to tobacco shipped to the United Kingdom and West Germany. Under Public Law 480

the financing of sales--\$16 million--for foreign currencies pertained to the Republic of Vietnam. Financing credit sales for dollars--\$10 million--involved various countries.

## CHAPTER 4

### SCOPE OF AUDIT

Our audit of CCC consisted of two major phases: (1) an examination of CCC's financial statements as of June 30, 1971, modified as required by circumstances (see below), and (2) a review of the manner in which CCC carried out selected commodity programs and activities, including the controls for safeguarding CCC's assets and protecting the Government's interests.

Our examination of the financial statements was made in accordance with the principles and procedures applicable to commercial corporate transactions. It was performed at the headquarters office in Washington, D.C.; the commodity offices in Kansas City and Minneapolis; and the data processing center in Kansas City. We reviewed and appraised audit work performed by the Office of the Inspector General, Department of Agriculture. Where appropriate, we relied on this work and modified the scope of our audit.

### EXAMINATION OF CCC FINANCIAL STATEMENTS

Our examination of CCC's financial statements was directed primarily toward arriving at a conclusion as to their reliability and usefulness for disclosing financial information concerning CCC's affairs. The examination included such tests of the accounting records and such other auditing procedures as we considered practicable and reasonable in view of the effectiveness of CCC's internal control and the audit work of the Office of the Inspector General, Department of Agriculture.

In view of the unique character and vast scope of CCC's operations--particularly commodity inventories and loan collateral--it was not practicable for us to perform all the examination and verification steps which would be necessary to reach an independent, overall opinion concerning the accuracy and fairness of the financial statements in presenting the financial position of CCC at June 30, 1971, and the results of its operations for the year then ended.

The principal step omitted was an independent verification of CCC-owned commodities and of commodities stored as collateral for loans. Such work would have been not only costly but also extremely difficult because of such factors as the great number and diversity of storage facilities and locations; the general impracticability of determining by independent confirmation, inspection, or other means the quantity and condition of grain stored in public warehouses on a commingled basis or stored on farms; and the large quantities of commodities in transit.

Periodically the Consumer and Marketing Service, Department of Agriculture, physically examines CCC commodity inventories and collateral stored in commercial warehouses to verify the quantity and quality of these commodities. During fiscal year 1971 examinations by the Consumer and Marketing Service covered 10,000 warehouses storing grain, cotton, and other agricultural commodities. This number included 1,900 warehouses examined by States under cooperative agreements. On the average the warehouses were examined twice during the year.

We did not verify the reasonableness of CCC's substantial allowances for losses on disposition of price-support inventories and loans. The allowances are based on estimates which are not susceptible to audit verification. For example, the amounts that CCC realizes on disposition of its commodity inventories depend on a number of complicated and interrelated factors, such as changes in domestic and worldwide supply and demand, various legislative restrictions on disposal of commodities, time and manner of disposal, and effect of commodity dispositions on domestic and world prices. For these reasons the actual losses can differ materially from the amounts estimated by CCC even though the procedures followed in computing the allowances indicate that the estimates are reasonable in the light of the information available at the time they are prepared.

## CHAPTER 5

### OPINION ON CCC FINANCIAL STATEMENTS

The financial statements--Comparative Statement of Financial Condition (sch. 1), Comparative Statement of Income and Expense (sch. 2), Analysis of Deficit (sch. 3), and Statement of Source and Application of Funds (sch. 4)--and the notes to financial statements are the same as those published in the Commodity Credit Corporation's Report of Financial Condition and Operations as of June 30, 1971.

CCC's loss from operations does not include costs of special activities carried out by CCC, which are paid by CCC from appropriated funds received in advance of expenditures or as reimbursements for financing extended. Comments on these costs, which are accounted for separately by CCC, begin on page 12.

For the reasons explained under "Examination of CCC Financial Statements" (see p. 19), we cannot express an opinion that CCC's financial statements (schs. 1, 2, 3, and 4) present fairly its financial position at June 30, 1971, and the results of its operations for the year then ended. We believe, however, that CCC's accounting methods provide a generally satisfactory record of its financial transactions and that its system of financial reporting is, in general, adequate for the purpose of supplying CCC's management with information for conducting its affairs.

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**FINANCIAL STATEMENTS**



SCHEDULE 1

COMMODITY CREDIT CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1971 AND 1970

A S S E T S	<u>June 30, 1971</u>	<u>June 30, 1970</u>
CASH	\$ 150,902,222	\$ 114,075,898
COMMODITY LOANS	\$ 1,850,135,930	\$ 2,788,353,901
Less allowance for losses (note B)	<u>7,918,000</u>	<u>25,932,000</u>
STORAGE FACILITY AND EQUIPMENT LOANS	139,322,397	164,129,970
LOAN TO SECRETARY OF AGRICULTURE	27,200,000	27,200,000
COMMODITY INVENTORIES (cost) (note A)	1,207,878,722	1,860,271,182
Less allowance for losses (note B)	<u>119,317,000</u>	<u>76,620,000</u>
ACCOUNTS AND NOTES RECEIVABLE	3,491,003,612	2,592,922,633
Less allowance for losses (note C)	<u>6,496,000</u>	<u>10,607,000</u>
ACCRUED INTEREST RECEIVABLE	52,220,922	37,030,356
FIXED ASSETS (net)	11,542,713	13,938,077
OTHER ASSETS (note D)	<u>23,363,113</u>	<u>11,693,649</u>
TOTAL ASSETS	<u>\$6,819,838,631</u>	<u>\$7,496,456,666</u>
L I A B I L I T I E S		
ACCOUNTS PAYABLE	\$ 227,575,515	\$ 218,189,559
ACCRUED LIABILITIES	467,456,122	636,142,848
TRUST AND DEPOSIT LIABILITIES	170,769,393	178,071,945
DEFERRED CREDIT FOR P.L. 480 RECEIVABLES-- CREDIT SALES FOR DOLLARS (note E)	2,269,154,961	1,770,919,065
OTHER LIABILITIES	17,659,844	21,194,265
INVESTMENT OF U.S. GOVERNMENT:		
Borrowings from United States Treasury	\$11,977,236,802	\$12,261,583,968
Capital stock	<u>100,000,000</u>	<u>100,000,000</u>
	12,077,236,802	12,361,583,968
Less deficit (schedule 3)	<u>8,410,014,006</u>	<u>7,689,644,984</u>
TOTAL LIABILITIES	<u>\$6,819,838,631</u>	<u>\$7,496,456,666</u>

The notes following schedule 4 are an integral part of this statement.

The General Accounting Office opinion on this statement is included in chapter 5.

# SCHEDULE 2

## COMMODITY CREDIT CORPORATION

### COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FISCAL YEARS 1971 AND 1970

	Fiscal year 1971	Fiscal year 1970
<b>REALIZED GAINS AND LOSSES--PROGRAM:</b>		
Commodity inventory operations (note M):		
Sales of commodities	\$1,801,341,425	\$ 880,425,422
Cost of sales	<u>1,681,361,586</u>	<u>881,994,513</u>
Net loss (-gain) on sales	-119,979,839	1,569,091
Cost of commodities donated	240,817,177	184,715,004
Storage and handling expense	133,754,760	145,198,939
Transportation expense	<u>61,741,883</u>	<u>66,784,603</u>
Net loss on commodity inventory operations	<u>316,333,981</u>	<u>398,267,637</u>
Producer and other payments:		
Cotton price-support payments	892,567,399	800,886,656
Feed grain price-support payments	735,937,150	727,750,666
Wheat price-support payments	425,550,674	402,264,804
Export payments	176,092,474	100,719,620
Cotton diversion and small farm payments	24,931,077	26,678,214
Feed grain diversion payments	767,680,129	915,827,252
Wheat diversion payments	62,624,013	71,518,302
National Wool Act payments	<u>71,913,507</u>	<u>52,643,584</u>
Total producer and other payments	<u>3,157,296,423</u>	<u>3,098,289,098</u>
Other program costs (-gains) and adjustments:		
Reseal loan storage expense	110,126,017	143,754,503
Research expenses	44,935	907,535
Loan and other charge-offs	54,108,346	25,012,650
Other costs	<u>11,013,228</u>	<u>9,571,872</u>
Total other program costs and adjustments	<u>175,292,526</u>	<u>179,246,560</u>
Special recoveries authorized (gains):		
Research expenses	39,646	825,576
National Wool Act	<u>71,913,506</u>	<u>52,643,584</u>
Total special recoveries authorized	<u>71,953,152</u>	<u>53,469,160</u>
Net realized loss--program	<u>3,576,969,778</u>	<u>3,622,334,135</u>
<b>INCOME AND EXPENSE--GENERAL:</b>		
Income:		
Interest on loans	79,417,598	51,478,646
Other interest income	45,112,549	28,907,799
Other income	<u>784,742</u>	<u>479,435</u>
Total income	<u>125,314,889</u>	<u>80,865,880</u>
Expense:		
Interest expense	544,660,218	615,599,404
General overhead expense (net) (note N)	60,860,294	55,350,731
Other expense	<u>776,622</u>	<u>912,755</u>
Total expense	<u>606,297,134</u>	<u>671,862,890</u>
Net expense--general	<u>480,982,245</u>	<u>590,997,010</u>
<b>TOTAL REALIZED LOSS</b>	<u>4,057,952,023</u>	<u>4,213,331,145</u>
<b>ADJUSTMENTS (-GAINS) OF ALLOWANCES FOR LOSSES--PROGRAM:</b>		
Allowance for losses on loans	-18,014,000	230,000
Allowance for losses on commodity inventories	42,697,000	-45,526,000
Allowance for losses on accounts and notes receivable	<u>889,000</u>	<u>-1,435,000</u>
Net adjustment of allowances for losses--program	<u>25,572,000</u>	<u>-46,731,000</u>
<b>NET LOSS TRANSFERRED TO DEFICIT (schedule 3)</b>	<u>\$4,083,524,023</u>	<u>\$4,166,600,145</u>

The notes following schedule 4 are an integral part of this statement.

The General Accounting Office opinion on this statement is included in chapter 5.

SCHEDULE 3

COMMODITY CREDIT CORPORATION

ANALYSIS OF DEFICIT

FROM INCEPTION IN 1933 TO JUNE 30, 1971

	Cumulative to June 30, 1970	Fiscal year 1971	Cumulative to June 30, 1971
TOTAL REALIZED LOSS EXCLUSIVE OF COST OF WARTIME CONSUMER SUBSIDY PROGRAM	\$42,310,551,975	\$4,057,952,023	\$46,368,503,998
COST OF WARTIME CONSUMER SUBSIDY PROGRAM	<u>2,102,281,073</u>	<u>-</u>	<u>2,102,281,073</u>
	44,412,833,048	4,057,952,023	48,470,785,071
ALLOWANCES FOR LOSSES--PROGRAM	<u>113,159,000</u>	<u>25,572,000<sup>a</sup></u>	<u>138,731,000</u>
NET OPERATING LOSS	<u>44,525,992,048</u>	<u>4,083,524,023</u>	<u>48,609,516,071</u>
Less:			
Reimbursement for net realized loss (15 U.S.C. 713a)	36,238,191,834	3,363,155,000	39,601,346,834
Appropriation for the postwar price support of agriculture (60 Stat. 8)	500,000,000	-	500,000,000
Loss recovered under the Foreign Aid Act of 1947 (22 U.S.C. 1411)	56,239,432	-	56,239,432
Recovery of emergency feed program losses (69 Stat. 62)	<u>41,915,799</u>	<u>-</u>	<u>41,915,799</u>
	<u>36,836,347,065</u>	<u>3,363,155,000</u>	<u>40,199,502,065</u>
Net deficit (schedule 1)	<u>\$ 7,689,644,983</u>	<u>\$ 720,369,023</u>	<u>\$ 8,410,014,006<sup>b</sup></u>
<sup>a</sup> Represents adjustment of allowances for losses.			
<sup>b</sup> Comprised of the following:			
Unrestored realized losses by fiscal year:			
1970	\$ 4,213,330,983		
1971	<u>4,057,952,023</u>		
	8,271,283,006		
Allowances for losses, June 30, 1971	<u>138,731,000</u>		
Net deficit, June 30, 1971	<u>\$ 8,410,014,006</u>		

The notes following schedule 4 are an integral part of this statement.

The General Accounting Office opinion on this statement is included in chapter 5.

SCHEDULE 4

COMMODITY CREDIT CORPORATION

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FISCAL YEAR 1971

FUNDS PROVIDED:

Borrowings from U.S. Treasury	\$ 5,291,904,632
Reimbursement for realized losses by appropriations	3,363,155,000
Sales of commodities	1,801,264,476
Inventory settlements for differences in grade, location, and quantity (net)	9,941,098
Proceeds of domestic wheat marketing certificates	385,411,901
Repayment of loans by producers	2,086,091,499
Repayment of loans by Secretary of Agriculture	27,200,000
Interest income	124,530,147
Other	<u>2,109,801</u>

Total funds provided \$13,091,608,554

FUNDS APPLIED:

Repayment of borrowings from U.S. Treasury	\$ 5,576,251,798
Cost of commodities purchased	627,668,696
Acquisitions of loan collateral in excess of value of loans defaulted	45,763,631
Storage, transportation, and processing expenses	197,681,896
Loans to producers	1,777,828,654
Reseal loan storage expense	110,126,017
Loan to Secretary of Agriculture	27,200,000
Export payments	176,092,474
Payments under the cotton, feed grain, and wheat programs	3,294,702,344
Interest expense	544,660,218
State and county office expenses	23,505,900
Custodian and agency expenses	370,596
Administrative expenses	36,386,662
Purchases of nonexpendable equipment	1,183,263
Other	13,517,225
Increase in working capital items	<u>638,669,180</u>

Total funds applied \$13,091,608,554

The notes following schedule 4 are an integral part of this statement.

The General Accounting Office opinion on this financial statement is included in chapter 5.

COMMODITY CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1971

A. Commodity inventories

Inventories are valued at acquisition cost plus the cost of any packaging or processing performed after acquisition. The amount of cost allocated to dispositions of commodities, acquired under price-support programs and generally stored without lot or crop year segregation, is computed on the basis of national average unit cost of the oldest crop year of the commodities for which any quantity remains in the inventory accounts. Cost allocated to other dispositions from price-support inventories is computed on the basis of actual lot cost or average unit cost for the crop year inventory from which the specific lots were removed. Actual lot cost or average cost, without regard to crop year, is the basis for costing dispositions from supply and commodity export program inventories.

B. Allowances for losses on loans and inventories

Allowances for losses on commodity loans and commodity inventories are the estimated loss on ultimate commodity dispositions. To the extent practicable, these estimates are based on estimated recoveries from foreseeable dispositions of the commodities. Estimated recoveries for commodities which are in excess of foreseeable dispositions are generally based on the lowest of cost, market price, or the Corporation's price for export sales. Allowances are not established for commodities in the supply and commodity export program inventories because they are usually acquired pursuant to commitments providing for disposition on a basis calculated to recover full costs to the Corporation.

C. Allowances for losses on accounts and notes receivable

Allowances for losses on accounts and notes receivable are based on the estimated recovery value of the respective assets.

No allowance has been provided for possible losses on dollar credit sales under the Agricultural Trade Development and Assistance Act of 1954, P. L. 83-480, because the full amounts of the receivables will be recovered from appropriations. (See note E.)

Drafts equal to 90 percent of installments on receivables under the export credit sales program guaranteed by the National Bank of Egypt, Cairo, which is owned by the Government of the United Arab Republic, have not been honored since the UAR severed diplomatic relations with the United States early in June 1967. Drafts issued for 10 percent of the installments have been honored by the banks in the United States which confirmed 10 percent of the letters of credit. As of June 30, 1971, \$63.0 million in principal and \$19.7 million in interest was due.

Pending further developments regarding possible resumption of diplomatic relations between the two governments, the Corporation does not have an adequate basis for estimating the amount of loss, if any, which may be sustained on receivables guaranteed by the National Bank of Egypt.

#### D. Allowance for losses on investments

Under the Corporation's Export Credit Sales Program letters of credit were received which were issued by the New York Branch of Intra Bank, S.A.L., Beirut, Lebanon, amounting to about \$21 million. This Bank ceased operations October 15, 1966. CCC and the three other major creditors of Intra Bank (the Governments of Lebanon, Kuwait, and Qatar) entered into an agreement for the settlement of claims of CCC and other creditors against Intra Bank. The agreement provided, among other things, that CCC would be an organizing stockholder in a new investment corporation to be established under Lebanese law. This corporation, The Financial Company For Investments, SAL, (changed to Intra Investment Co., SAL, effective July 31, 1971), was established on December 3, 1970. The amount of the account receivable and the accrued interest thereon was transferred to an investment account representing the Corporation's investment in Intra Bank (changed to Levant Bank, SAL, effective July 31, 1971)

and The Financial Company For Investments SAL. The agreement by its terms does not prevent CCC from pursuing its rights under United States law with respect to assets of Intra Bank in the United States. The Corporation expects to recover a substantial amount on its claim from the liquidation of assets of Intra Bank in New York by the New York State banking authorities. As of June 30, 1971, \$2,955,000 has been recovered and credited to the investment account to reduce the cost of the Corporation's investment. Although the remainder may ultimately be recovered through the investment corporation, an estimated amount has been established as an allowance for loss on this investment. There is insufficient financial information available to establish the present value of the investment.

E. Receivables for Public Law 83-480, credit sales  
for dollars

Amounts to be paid in dollars by foreign governments and private trade entities for agricultural commodities and products thereof delivered under agreements entered into pursuant to P. L. 83-480, are carried as receivables on the books of the Corporation, pending payment under long-term credit arrangements. Accrued interest is added to such receivables on June 30 each year. Because collections on such receivables are to be applied as reductions in the amounts to be appropriated by the Congress for P. L. 480 programs, the total amount of the receivables is offset by a deferred credit account. As of June 30, 1971, past-due installments of principal and interest on receivables due from foreign governments amounted to about \$8,823,000. Of this amount, \$1,437,000 was paid during July and August 1971.

F. Liability for payments under 1971 set-aside programs for feed grains, wheat and upland cotton

Pursuant to legislation applicable to 1971 crops, the Corporation will make set-aside payments to producers of feed grains, wheat and upland cotton. Preliminary payments under these programs were not due until after July 1, 1971 and the amounts cannot be determined until compliance with the terms of the program has been accomplished and verified. Additional amounts may be payable under these programs dependent on the relationship of national average market prices for the first five months of the marketing year and the final rates of payment determined in accordance with the legislative authorization. At June 30, 1971, the Corporation was contingently liable to make such payments in the following estimated amounts:

(in millions)

Feed grains	\$1,211
Wheat	872
Upland cotton	815

Of the amount shown for wheat it is estimated that \$393.8 million will be recovered by the sale of domestic wheat marketing certificates to processors. These estimated amounts are not recorded as liabilities in the accounts.

G. Liability for payments under the 1971 extra long staple cotton program

The Corporation will make payments to producers pursuant to legislation applicable to the 1971 crop of extra long staple cotton. At June 30, 1971, the Corporation was contingently liable to make such payments in an estimated amount of \$4.9 million. Such payments were not due until after July 1, 1971 and the amount cannot be determined until compliance with the terms of the program has been accomplished and verified. The estimated amount is not recorded as a liability in the accounts.

#### H. Commitments to acquire or dispose of commodities

Contracts to acquire commodities are not reflected in the accounts, but the amounts of firm contracts are considered as contingent liabilities. The approximate contract values of undelivered commodities and materials under firm contracts to acquire such commodities and materials as of June 30, 1971, were as follows:

<u>Commodity</u>	<u>Value</u>
Blended food products	\$ 7,013,717
Butter	5,305,150
Cheese	19,316,905
Corn products	1,603,123
Milk, dried	29,794,202
Rolled oats	1,014,055
Soya flour	22,312
Soybean oil	5,854,628
Vegetable oil products	1,677,267
Wheat products	<u>16,743,483</u>
Total	<u>\$88,344,842</u>

Sales commitments and other disposition commitments are not shown in the accounts but are considered in establishing allowances for losses.

#### I. Export payments

The Corporation was contingently liable at June 30, 1971, to make export payments on sales registered or declared, or export offers accepted, for which documents evidencing exportation had not been submitted, in the following approximate amounts:

<u>Commodity</u>	<u>Amount</u>
Rice	\$ 815,280
Wheat	13,224,868
Wheat flour	2,684,200

These contingent liabilities are not shown in the financial statements.

#### J. Letters of commitment

Letters of commitment issued to banking institutions authorizing the banks to reimburse exporters in dollars for sales of commodities made under P. L. 83-480, are not shown in the financial statements. As of June 30, 1971, the amount of outstanding letters of commitment was \$94,240,302.

#### K. Claims

Amounts due the Corporation arising from claims that are definitely known or can reasonably be established are recorded currently as accounts receivable. On claims established under programs for which the Corporation will be reimbursed on an actual cost basis and on certain claims established in the maximum amount chargeable, notwithstanding improbability of collection, credit is deferred until actual recovery is made. This deferred credit is shown under "Other Liabilities". An allowance for losses is provided on other claims where collection is doubtful. Amounts of claims on which adequate proof has not been established are not recorded as accounts receivable but are recorded for control purposes. It is estimated that such claims amounted to \$6,874,043 as of June 30, 1971.

Claims against the Corporation for which the amounts are definitely known or can reasonably be established are recorded as accounts payable. Amounts of claims which are not considered valid by the Corporation are not shown as accounts payable but are recorded for control purposes. Claims in this category were estimated at \$1,473,905 as of June 30, 1971.

#### L. Potential value of freight transit rights

The Corporation had substantial quantities of grain and relatively small quantities of other commodities stored in commercial warehouses at inland locations with freight bills covering the inbound shipments registered for transit purposes under arrangements which permit use of the registered freight bills to reduce the freight costs on outbound shipments. Because of uncertainty as to when outbound shipments will be made and as to the ultimate

destinations it is not practicable to place a dollar value on the potential freight reductions to be realized from the registered freight bills. No value is recorded in the accounts for such potential savings.

The Corporation also had cotton stored in commercial warehouses at inland locations which had been shipped in by rail under tariffs providing for transit rights. Part of the costs of inbound freight on such cotton may be subject to refund after the cotton is shipped out. The Corporation usually obtains any recoveries of cotton transit value in connection with sales of the cotton. Potential recoveries on cotton in inventory at June 30, 1971, have been estimated at \$863,810. This amount is not recorded in the accounts.

M. Commodity inventory operations

Cost of sales and cost of commodities donated, as shown in the Comparative Statement of Income and Expense, represent the acquisition cost of the commodities plus the cost of any packaging or processing performed after acquisition. Storage and handling and transportation expenses pertaining to inventories are shown separately in this statement.

N. General overhead expense

The general overhead expense for fiscal year 1971 and for 1970 excludes \$16.5 million and \$20.3 million, respectively, of expenses financed with funds appropriated to the Agricultural Stabilization and Conservation Service (ASCS).

Substantially all of CCC's operating expenses are paid, as authorized by law, from an ASCS consolidated fund account covering operating expenses for both CCC and ASCS activities. This consolidated account is funded by an ASCS appropriation and by transfer of CCC corporate funds subject to limitations specified in the annual appropriation act. The amount of operating expenses is distributed to CCC and ASCS activities on the basis of budgetary workload statistics.

For expenses in fiscal year 1971, CCC transferred the maximum amount authorized -- \$69,871,000 -- to the consolidated account. The cost distribution showed that expenses applicable to CCC activities amounted to \$86.4 million, or about \$16.5 million in excess of the amount contributed to the expense fund by CCC.

0. Pooled payment-in-kind certificates

Pursuant to legislation which authorized issuance of payment-in-kind certificates, the Corporation assisted producers in marketing their certificates by making cash advances to them for the full value of the certificates. The certificates were pooled and marketed from the pools for immediate use by the purchasers to obtain delivery of commodities from the Corporation's inventories. Because the certificate payments for which advances were made have been recorded as expense and the amounts advanced are not repayable, the advance and the offsetting obligation to redeem pooled certificates are not shown in the Statement of Financial Condition. At June 30, 1971, the amount of the obligation to redeem pooled cotton and feed grain certificates was \$751,147,986 and \$8,879,665,991 respectively. The same amounts had been advanced.

APPENDIX



PRINCIPAL OFFICIALS OF  
THE COMMODITY CREDIT CORPORATION  
DEPARTMENT OF AGRICULTURE  
FISCAL YEAR 1971

AppointedBOARD OF DIRECTORS

Clifford M. Hardin (Secretary of Agriculture)	Jan. 1969
J. Phil Campbell (Under Secretary of Agriculture)	Jan. 1969
Clarence D. Palmy (Assistant Secretary of Agriculture)	Jan. 1969
Richard E. Lyng (Assistant Secretary of Agriculture)	Mar. 1969
Thomas K. Cowden (Assistant Secretary of Agriculture)	Sept. 1969
Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Apr. 1969
Don Paarlberg (Director, Agricultural Economics)	Mar. 1969

OFFICERS (note a)**PRESIDENT:**

Clarence D. Palmy (Assistant Secretary of Agriculture)	Jan. 1969
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**EXECUTIVE VICE PRESIDENT:**

Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Mar. 1969
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**VICE PRESIDENTS:**

Raymond A. Ioanes (Administrator, Foreign Agricultural Service)	Feb. 1962
Clayton Yeutter (Administrator, Consumer and Marketing Service) (note b)	Oct. 1970

Appointed

OFFICERS (note a) (continued)

VICE PRESIDENTS: (continued)

Edward J. Hekman (Administrator, Food and Nutrition Service)	July 1970
Carroll G. Brunthaver (Associate Administrator, Agricultural Stabilization and Conservation Service)	Feb. 1969
Clifford G. Pulvermacher (General Sales Manager, Export Marketing Service)	Apr. 1969

<sup>a</sup>Officers of the Corporation are designated according to their positions in the Department of Agriculture.

<sup>b</sup>Mr. Clayton Yeutter succeeded Mr. Roy W. Lennartson who retired in July 1970.

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